

## Message Text

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ACTION L-02

INFO OCT-01 ARA-06 ISO-00 EB-07 SS-15 INR-05 RSC-01 IGA-01

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC 3034

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E.O. 11652: N/A

TAGS: BDIS, EIND, EFIN, PE

SUBJECT: CERRO DISAGREEMENT WITH MINEROPERU

REF: LIMA 9252

1. HAROLD GARDENER OF INTERNATIONAL INDUSTRIAL SERVICES (IIS), A WHOLLY-OWNED SUBSIDIARY OF CERRO CORP., CALLED ON AMBASSADOR DECEMBER 4. HE SAID HE WISHED TO DISCUSS PROBLEM CREATED BY DISAGREEMENT BETWEEN CERRO SALES AND MINEROPERU OVER SALES CONTRACTS NEGOTIATED BEFORE NATIONALIZATION OF CERRO DE PASCO AND WHICH STILL HAVE SEVERAL YEARS TO RUN. (NOTE: PROBLEM IS THE SAME AS THAT REFERRED TO IN PARAGRAPH 5 OF REFTEL.)

2. GARDENER EXPLAINED THAT PRIOR TO THE NATIONALIZATION OF CERRO DE PASCO, CERRO SALES HAD NEGOTIATED A NUMBER OF CONTRACTS WITH MINEROPERU WHEREBY CERRO SALES SOLD PERUVIAN CONCENTRATES TO BUYERS IN THIRD COUNTRIES SUCH AS JAPAN AND FINLAND. THROUGHOUT 1974, MINEROPERU HAS BEEN TRYING TO BYPASS CERRO SALES, DISREGARDING THE CONTRACTS AND MAKING SALES OF CONCENTRATES DIRECTLY TO PURCHASERS. FAILURE TO HONOR CONTRACTS WILL COST CERRO SALES SOME \$6 MILLION IN COMMISSIONS IT WOULD OTHERWISE HAVE EARNED OVER LIFE OF CONTRACTS. IN RETALIATION, CERRO SALES HAS WITHHELD SOME \$6 MILLION IN PROCEEDS IT OWES

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TO MINEROPERU.

3. IN EARLY OCTOBER 1974, REPRESENTATIVES OF CERRO MET WITH OFFICIALS OF MINEROPERU AND CENTROMIN IN NEW YORK TO NEGOTIATE RESOLUTION OF IMPASSE. ACCORDING TO GARDENER, SUBSTANTIAL AGREEMENT WAS ACHIEVED. GARDENER SHOWED AMBASSADOR TWO MEMORANDUMS, ONE IN ENGLISH AND THE OTHER IN SPANISH, PREPARED BY THE TWO SIDES WHICH HE SAID WERE MUCH THE SAME, WITH ONLY A FEW DIFFERENCES TO BE WORKED OUT. (NOTE: REFTEL REPORTED THAT CENTROMIN OFFICIAL TOLD EMBASSY OFFICER THAT NEGOTIATIONS HAD BROKEN DOWN WITH NO INDICATION WHEN THEY MIGHT BE RESUMED.) GARDENER SAID THAT GOP HAD APPOINTED COMMISSION TO STUDY THE MATTER AND THAT ALBERTO RUBINA, NEW HEAD OF MINEROPERU EXPORT, HAD PERSUADED COMMISSION TO PERMIT HIM TO CONTINUE NEGOTIATION.

4. IN MEANTIME, GARDENER SAID, HE HAD HEARD A REPORT THAT GOP MIGHT DECIDE SIMPLY TO CONFISCATE ALL REMAINING CERRO ASSETS IN PERU. THESE INCLUDE EIGHT MANUFACTURING COMPANIES IN WHICH CERRO HAS AN INTEREST (DYNAMITE, REFRACTORY BRICK, COPPER EXTRUSION, ETC.) WHICH GARDENER SAYS HAVE A VALUE OF ABOUT \$10 MILLION. CERRO ALSO OWNS 10 PERCENT INTEREST IN BUENAVENTURA MINE AND 22 1/4 PERCENT INTEREST IN SOUTHERN PERU COPPER CORPORATION, BUT GARDENER SAID HE DID NOT THINK GOP WOULD MOVE AGAINST THESE ASSETS.

5. GARDENER SAID HE HAD BEEN ASKED BY CERRO TO REQUEST EMBASSY GOOD OFFICES IN PERSUADING GOP NOT TO SEIZE CERRO ASSETS PENDING RESUMPTION OF NEGOTIATIONS. AMBASSADOR AGREED THAT EMBASSY OFFICER WOULD SPEAK TO RUBINA TO ASCERTAIN WHERE MATTER STOOD AND THAT WE WOULD THEN DETERMINE WHETHER TO DISCUSS MATTER AT HIGHER LEVEL. AMBASSADOR ALSO OBSERVED THAT COURSE CERRO IS TAKING APPEARS HIGHLY QUESTIONABLE, PARTICULARLY GIVEN PRESENT MOOD OF VELASCO GOVERNMENT.

6. COMMENT: ACTION BY CERRO IS SIMILAR TO THAT IT TOOK LAST YEAR WHICH COMPLICATED AND DELAYED "GREENE AGREEMENT". GROUNDS FOR WITHHOLDING FUNDS SEEMS EVEN MORE UNSOUND, HOWEVER, AS THERE IS NO QUESTION THAT CERRO OWES CENTROMIN THE MONEY; CERRO'S CLAIM IS ONLY THAT IT STANDS TO LOSE SOME \$6 MILLION IN COMMISSIONS IT MIGHT OTHERWISE EARN WERE ITS CONTRACTS LIMITED OFFICIAL USE

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RESPECTED. WE THINK IT WOULD BE DIFFICULT TO BUILD STRONG CASE FOR DEFENDING CERRO SHOULD GOP DECIDE THAT CERRO'S REFUSAL TO MAKE PROPER PAYMENT JUSTIFIED SEIZURE OF CERRO ASSETS HERE. DEAN

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## Message Attributes

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**Draft Date:** 05 DEC 1974  
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